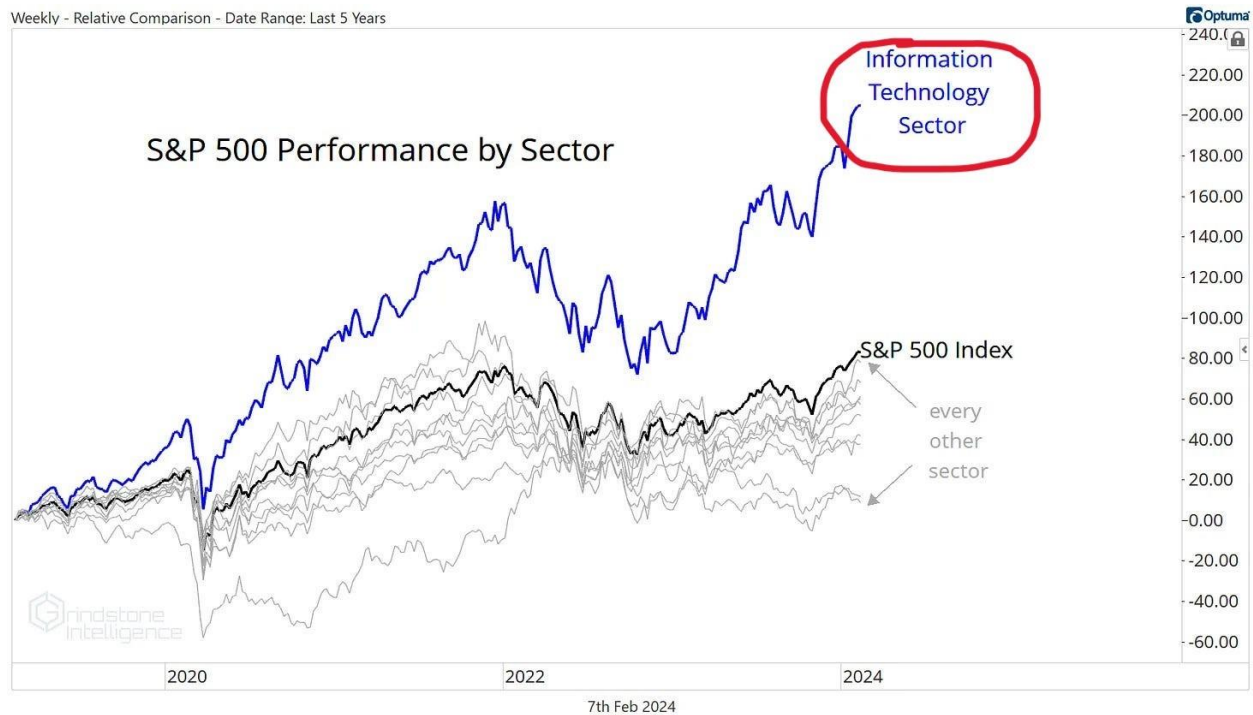


The Outlook: Feb. 8, 2024

"Surely we're in for trouble?"

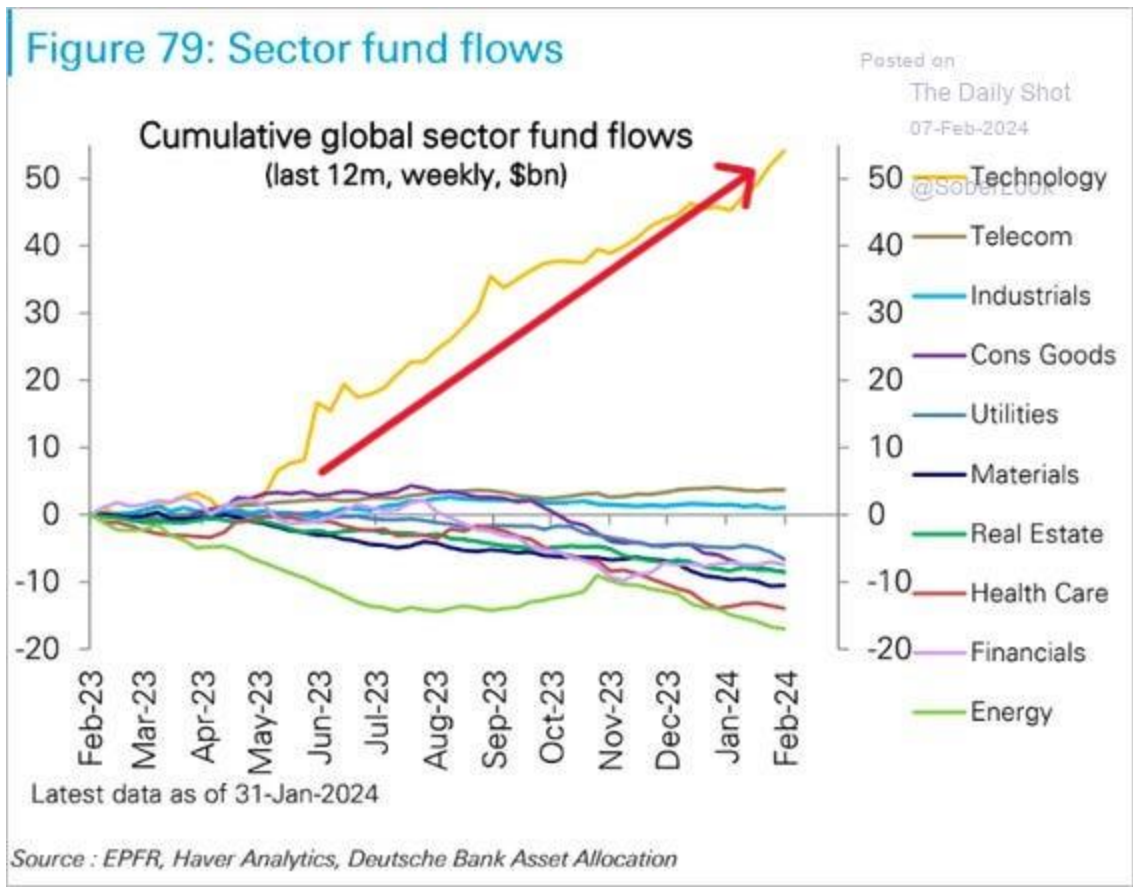
"The market keeps hitting new records. Surely we're in for trouble!" That's the very reasonable thing we're all inclined to think, these days, amidst the drumbeat of headlines like today's "S&P 500 Hits All-Time Record: 5,000!" The answer, as usual, is: "Maybe. Maybe not. We can't know unless we look at what "5,000!" really means . . . at what's going on under the surface. We touched on this just last week, but here are a couple of pictures so interesting they're worth another look.



And here's the caption to that picture:

"Tech dominance. "Over the last 5 years, the Information Technology has risen more than 200%, 2x the return of the S&P 500 index. It goes even further than that, though. Tech's dominance has been so extreme that every other sector has lagged the benchmark. 10 out of the 11 sectors are below 'average'."

Here's the next look at the same thing, plus its caption:



Sector fund flows. "Flows into tech funds have been remarkable. Energy continues to see outflows."

Even for us long-suffering investors who think we've seen everything, those are remarkable pictures: they're the story of a stock market which has been fairly crazy about a tiny handful of "Celebrity Tech" stocks; and fairly bored with almost everything else. But here's the \$64,000 Question: "Does that mean either the market as a whole, or even just those "Crazy Celeb Tech" stocks, are so "priced for perfection" they're about to come spiraling down in flames, like the Hindenberg in New Jersey?"

Outlook's answer is, "No. It only means, for sure, that the "everything else" group is very likely to do better than before, compared to those Celebrities. "Better than before" might mean anything from "Spiraling down in flames like the Celebrities, but surviving" to "Going up, while the Celebrities stagnate or even plunge to earth." Our "very likely" is underlined simply because that is the deep nature of the market—which is simply a vast crowd of people mostly making short-term bets on their temporary impressions about things. That particular crowd always carries things too far—too optimistic or too pessimistic—and those "things" must then change.

There's always at least a kernel of truth behind the crowd's "too optimistic" or "too pessimistic." Today it's Artificial Intelligence: AI. "AI" is a good deal more than a kernel of truth. At Outlook we're pretty sure it's one of those productivity-boosting inventions which are really "big" . . . genuinely "big." Such inventions are the engine behind accelerating growth and wealth for a long, long time. Artificial Intelligence will surely be that kind of engine . . . but that doesn't mean the Tech stocks worshipped by

the betting crowd, today, will keep climbing and climbing. “Trees do not grow to the sky,” is the old investment saying. They’ll rocket up, as they’ve done; then get hammered, as they’re waiting to do. Then they’ll do well again . . . and so on.

But the lesson for us, today, from these pictures is simple: much of that “everything else” crowd of stocks has been the polar opposite of “rockets,” or “priced for perfection.” So the answer to “Surely we’re in for trouble!” is “Why? The Celebrities have been looking for trouble, so to speak, up there in the stratosphere. Stodgy old groups like Energy and Industrials haven’t been anywhere near the stratosphere. They’ve been avoiding trouble, or coping with it rather splendidly, as their results show us, quarter after quarter. It will be their turn on stage, pretty soon.”

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